



## Media Statement

### **Are consultancy fees and municipal salaries fruitless and wasteful expenditure?**

**Johannesburg, 24 June 2021** – The municipal skills shortage has reared its nasty head again. This was identified by the Auditor General (AG), Ms. Tsakani Maluleke, who briefed parliamentary committees on the 2019/20 local government audit outcomes and the Covid-19 relief funds expenditure in a session on 22 June 2021. One of the biggest concerns Maluleke raised during this session is the high usage of consultants at municipalities, writes Natasha Soopal, SAICA Senior Executive for Public Sector.

The cost of consultants at municipalities increased to R1 027 million in 2019-20 (2018-19: R847 million). The AG noted that 74% of municipalities had a recurring use of consultants, which indicates that these municipalities will not be able to comply with Section 122 the Municipal Finance Management Act, No 56 of 2003 (MFMA), *preparation of financial statements*, without the use of consultants. The AG further cited the lack of skills (68%), lack of skills and vacancies (30%) and vacancies (2%) as reasons identified for the high use of consultants at municipalities.

Yet, despite the huge consultant expense incurred by municipalities, this still has not achieved the desired audit outcomes. 59% of financial statements prepared by consultants and submitted for auditing included material misstatements. Furthermore, the following audit outcomes were achieved by municipalities who used consultants:

- Financially unqualified – 97 municipalities (consultant expense of R517 million)
- Qualified – 60 municipalities (consultant expense of R352 million)
- Adverse – 5 municipalities (consultant expense of R53 million)
- Disclaimer – 10 municipalities (consultant expense of R105 million)

Section 62 of the MFMA places responsibilities on the accounting officer of a municipality to manage the financial administration of a municipality. This includes ensuring that the municipality's resources are used effectively, efficiently, and economically and that full and proper records of the municipality's financial

affairs are kept. However, based on the AG's report to Parliament, this has not been achieved.

Interestingly, the majority of consultants were found to be ineffective based on circumstances that were outside their control. 51% of consultants were ineffective due to inadequate or lack of records and documentation which reflects a weak control environment, whilst the work of 9% of consultants was not adequately reviewed; and a further 17% of consultants just did not deliver.

The question that remains is whether the consultants' cost or the salary of municipal officials who have been employed to support strong municipal finance management should be classified as fruitless and wasteful expenditure? Or should it be both in instances where a municipality used consultants at the same time as incurring salary costs, and yet still received a disclaimer as was the case of a municipality in Eastern Cape which paid R66 million in employee salaries and R24 million in consultancy fees.

SAICA believes that consultants can play a role by providing strategic partnerships that help municipalities identify innovative solutions that will improve municipal finance management and service delivery. However, municipalities must also start holding officials and service providers accountable, reducing their administration costs, and improving service delivery.

Over and above this, SAICA believes that you cannot reduce the cost of consultants nor enforce the transfer of skills from consultant to municipal officials unless officials have the appropriate skills. These enhanced skills must also be matched by ethical and professional skills. It is on this basis that SAICA recommends the urgent intervention of appointing and/or upskilling finance officials who can perform accounting and reporting activities, as well as implement strong internal control. SAICA believes that this can only be achieved through the professionalisation of local government to ensure that finance officers within municipalities have the mandatory higher qualifications needed to perform the tasks assigned to them, as well as through the implementation and monitoring of minimum competencies for all finance officials in local government. It is with this in mind that SAICA remains committed to working with local government to upskill finance officers through its Chartered Accountants [CAs(SA)], Associate General Accountant [AGA(SA)] and Accounting Technician [AT(SA)] designations.

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### **About SAICA**

The South African Institute of Chartered Accountants (SAICA), South Africa's pre-eminent accountancy body, is widely recognised as one of the world's leading accounting institutes. The Institute provides a wide range of support services to more than 50 000 members and associates who are chartered accountants (CAs[SA]), as well as associate general accountants (AGAs[SA]) and accounting

technicians (ATs[SA]), who hold positions as CEOs, MDs, board directors, business owners, chief financial officers, auditors and leaders in every sphere of commerce and industry, and who play a significant role in the nation's highly dynamic business sector and economic development.

Chartered Accountants are highly valued for their versatile skill set and creative lateral thinking, that's why all of the top 100 Global Brands employ Chartered Accountants.

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